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NOMINATION OF GEORGE D. GOULD

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

THE NOMINATION OF GEORGE D. GOULD, OF NEW YORK, TO BE UNDER SECRETARY OF THE TREASURY, VICE NORMAN B. TURE, RESIGNED

NOVEMBER 7, 1985

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NOMINATION OF GEORGE D. GOULD TO BE UNDER SECRETARY OF TREASURY

THURSDAY, NOVEMBER 7, 1985

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 9:30 a.m., in room SD-538, Dirksen Senate Office Building, Senator Jake Garn (chairman of the committee) presiding.

Present: Senators Garn, Mattingly, Hecht, Proxmire, Cranston, Dixon, and Sasser.

OPENING STATEMENT OF CHAIRMAN GARN

The CHAIRMAN. The Banking Committee will come to order.

This morning the Senate Banking Committee is meeting to consider the nomination of Mr. George D. Gould to be Under Secretary of the U.S. Department of the Treasury.

The Senate received Mr. Gould's nomination on August 1, 1985. The Senate Finance Committee considered the nomination first and reported it favorably on September 18, 1985. The nomination was subsequently referred to the Banking Committee for a period not to extend beyond Friday, November 15, 1985.

Mr. Gould, let me apologize to you for this long delay and assure you that the delay and the concern of the Banking Committee never had anything to do with questions about your ability for the job or the nomination.

I am certainly satisfied that you are well qualified and it is a good nomination.

It's one of those things that we lovingly around here call a turf battle and I don't know that I like turf battles but as long as I am chairman of the Senate Banking Committee I suppose, and any other chairman, will defend our turf. And why it took so long to convince people—this could have been done in September without any problem whatsoever. Why it took so long for certain people to agree that we had some jurisdiction in this area, I don't know.

But to explain to you why we felt strongly that way as the Banking Committee, as I'm sure you're aware, that position of Under Secretary was redefined and anybody who reads that new job description would say that certainly we have jurisdiction over many of the areas that will be your responsibility.

As a matter of fact, there are two other positions that the Finance Committee has joint jurisdiction with us where we don't have nearly as much to do with those nominees as we do with your

job as it has been redefined, and I'm sure in a lot of committees you can always find, well, we have a little bit of what that nominee does and we would like some jurisdiction. In this case, as I explained to the Finance Committee, your job description is about 90 percent of what the committee has been doing the last few years and will continue to do over the next 3 or 4 years in deregulation and lots of different areas—the regulation of Government securities dealers, financial institutions supervisory policy, permissible activities for different types of financial institutions and their holding companies and subsidiaries, deposit insurance, and possible changes in the current deposit insurance system, oversight of currency and coinage as well as the operation of the mint and the Bureau of Engraving and Printing, the operation of the Federal Financing Bank, the Federal Loan Guarantee Program—and so this is the heart and the center of what this committee is all about, in other words, the Banking, Housing, and Urban Affairs Committee.

So I wanted to take a little longer than usual and explain that to you, why this has gone on, and I feel very badly that it has taken 2 months to get to this hearing and delay you that long and assure you that it had nothing to do with your personal qualifications or questions over your ability to do this job.

So with that, I would turn to Senator Proxmire to see if he has any opening remarks.

Mr. GOULD. Might I respond to that just for a moment, Senator?

The CHAIRMAN. You certainly can.

Mr. GOULD. As I hope you and other members of the committee know, as far as the Treasury was concerned and as far as I was concerned personally, I was delighted and indeed looked forward to a chance to appear before you because I hope, if confirmed, that I will have the chance to serve this administration and work with this committee and appear before you in other ways and hopefully in that interim period I have been able to use the time to learn a little bit more about my job.

So, as the expression goes, if I am confirmed, I hope to hit the ground running. So from our point of view, I'm happy to be here and the delay hasn't really been that much of a problem.

The CHAIRMAN. Well, I thank you for that and you are absolutely correct. There has never been any reluctance on the part of Treasury and specifically Secretary Baker and I had several conversations about this, and he certainly never had any objections to the sequential referral.

The problem was here in Congress. We take full blame, full responsibility.

Senator Proxmire.

OPENING STATEMENT OF SENATOR PROXMIRE

Senator PROXMIRE. Thank you, Mr. Chairman.

Mr. Chairman, I commend you, as chairman, for making this jurisdictional fight. Jurisdictional fights are often messy and seem to be just a matter of ego satisfaction. In this case, the chairman did exactly the right thing. If this committee is going to have any force or any effect in our area of responsibility, we certainly need to have an opportunity to act on your nomination.

I notice in your job description the fourth paragraph reads as follows:

> The Under Secretary also would be involved in broad policy issues and legislative initiatives affecting financial institutions. For example, the Under Secretary will provide advice to the Secretary in formulating the administration position on proposed legislation affecting the financial services industry.

That is something, of course, the distinguished chairman of this committee has been working very hard on all during his chairmanship and he's done an outstanding job. So I think it's mandatory that we insist on having an opportunity to consider your nomination and I agree with the distinguished chairman, you certainly have an outstanding background and I want to comment on that a little later.

Thank you, Mr. Chairman.

The CHAIRMAN. As soon as I saw Yale, I knew you had an outstanding background.

Senator PROXMIRE. Not only Yale. You graduated from Yale in 1951. I graduated in 1938. So you're a young fellow even though we'll forgive you for your youth. I graduated from Harvard Business School in 1940. You graduated in 1955. And you certainly distinguished yourself both at Yale and Harvard, but nobody is perfect. [Laughter.]

Mr. GOULD. Well, Senator, there's no reason you would remember this, but I had the pleasure of appearing before you during my days of working on the city of New York finances as the chairman of so-called Big MAC and that's quite a few years ago now, but I remember it with particular affection because, fortunately, in the end it worked out.

The CHAIRMAN. I certainly haven't forgotten those.

Senator Mattingly.

Senator MATTINGLY. I would just welcome Mr. Gould and I hope you get an earlier confirmation than some of the other people that we have before the committee. Our track record I think in the Congress for confirming people is not too good right now, but I hope you will get an early confirmation that you well deserve.

I do have some questions for the record and I would like to stay and hear your statement but I've got to go to the floor of the Senate to take up one of my appropriations bills, the military construction bill.

The CHAIRMAN. Senator Hecht.

Senator HECHT. Thank you, Mr. Chairman.

I, too, have a conflict but I wanted to come in and welcome you. I was very impressed at our conversation in our office and the fact that no one is here this morning means you're noncontroversial, so I guess everything is going right down the line.

Mr. GOULD. Thank you, Senator.

The CHAIRMAN. Mr. Gould, before we proceed, could I have you stand and be sworn.

Mr. GOULD. Yes, sir.

[Whereupon, the witness was duly sworn.]

The CHAIRMAN. If you have any opening statement we would be happy to hear that from you now.

GEORGE D. GOULD OF NEW YORK, TO BE UNDER SECRETARY OF THE TREASURY

Mr. GOULD. I have no formal statement actually, Senator, other than to say that I look forward, if confirmed, to serving this administration and it strikes me that there are several interesting years ahead for the Treasury and I would enjoy being part of it.

The CHAIRMAN. Mr. Gould, in order to avoid not only any conflict of interest but the appearance of any conflict, it is my understanding that both your wife and yourself have established qualified blind trusts which have been approved by the Office of Government Ethics. Is that correct?

Mr. GOULD. Yes, sir. They were signed back in September, if I remember correctly.

The CHAIRMAN. And will you agree to appear before this or any other congressional committee if asked?

Mr. GOULD. Yes, sir, I shall.

The CHAIRMAN. Let me give you just a little bit of background in the areas that we've been talking about and I appreciate Senator Proxmire reading part of your job description which I thought should have made this hearing possible a long time ago because it is so directly related to what we are doing.

During the administration of Secretary Regan, it was a time when we did pass some major legislation concerning deregulation of the financial services industry and the Treasury Department was very much involved. Secretary Regan was very personally involved.

LULL IN PASSING MAJOR LEGISLATION CONCERNING DEREGULATION

There has been a lull in this activity both in the Congress and in the administration with the new Secretary coming onboard. Secretary Baker has testified before us but not in great specifics or any administration bill which actually started the process of deregulation which Garn-St Germain was modifications and a result of that interest.

And I recognize that when there is a change in a Cabinet post and with all sorts of other problems going on around the world—monetary rates and exchange rates and all of that--what I'm saying is there has been a number of reasons, both in the administration and here in Congress, for not very much activity in these areas this year.

So my first question is a very general question. Now that Secretary Baker has been there for going on a year, you're going to assume your redefined post with a lot of the activities that we deal with in that job description, can we expect more interest and a great deal of pick up in activity in this broad general area of financial institutions reform?

Mr. GOULD. Yes, sir. I think we will be able to bring to you more specifics in those general areas. Chuck Sethness, who has just been confirmed by the Senate as Assistant Secretary for Domestic Finance who is sitting here this morning actually, and I both will be working with a good part of our time devoted to the job description that Senator Proxmire read earlier.

In spite, however, of our delay, if you will, in getting here in an official capacity, the Treasury has continued all during this period to study the issues and I find and am personally quite impressed by the staff of the Treasury in terms of their having kept abreast of all the different trends going on and having created a number of position papers, and I hope now that we will be able to take that work and working with your committee more specifically address some of the issues that are before you.

The CHAIRMAN. When Secretary Baker was before us earlier this summer, he said that he would be working much more closely with the committee in developing appropriate responses to the ongoing changes in the financial services marketplace.

It's my understanding that—obviously there's a lot of other staff and a lot of other people involved, but it's my understanding that you will be the principal adviser to the Secretary in these areas.

Mr. GOULD. That is also my understanding, sir.

The CHAIRMAN. Would it be possible for you this morning to give us just some general outlines of your current thinking on, first of all, the overall health of the financial services industry?

OVERALL HEALTH OF THE FINANCIAL SERVICES INDUSTRY

Mr. GOULD. Yes, I would be glad to do that.

I think very much as I believe the Secretary testified before your committee earlier this year, I feel structurally sound is the term that I think is still operative as far as the financial structures are concerned.

Nonetheless, I think from just the daily reading of the newspaper one has to notice the strains that have been put upon traditional financial institutions by basically a continuing trend of deflation.

I think in many ways people felt that the abrupt change from high rates of inflation to much lower rates of inflation were really paid for by the 1982 recession, but I think we're finding an interesting and historically somewhat unprecedented trend that continues which is that in the face of a strong economic upturn we are seeing deflation in areas such as farm commodity prices, oil prices, metal prices, and indeed in some areas of the country, real estate prices. And those sorts of trends are continuing.

Inevitably, because they affect the pricing of collateral and indeed the cash-flows of sectors of the economy, those things have put continued strains on lending institutions and have also introduced complexities into the operation of those institutions that have not been prevalent before.

So although we believe the structure still to be sound, I think there are adjustments which are going to have to be made and recognition that roles indeed of traditional institutions have broken down because of market forces, and that people are tending, for example, to be preempted—let's say traditional commercial banking operations have tended to be preempted from certain activities which constituted the bulk of their business in the past. So I think that has to be addressed.

So it's both the safety and soundness aspects of the system in the light of deflationary or in some cases deflation, and indeed whether

or not institutions have to be restructured in certain ways in order for them to effectively compete on an equitable basis and continue to provide services to the consumer in light of the structural changes forced by the marketplace.

It is our hope at the Treasury that we will continue to study those issues and indeed to have positions for the administration and working with your committee that hopefully gets some of them done.

The CHAIRMAN. Well, again, recognizing that this is a confirmation hearing and we'll have you back for very specific recommendations and policy positions of the administration, but in the area of deposit insurance reform we've held a number of hearings over the last few months to study the FSLIC and the FDIC and decide what, if any, changes should be made to make those insurance funds stronger.

Let me just ask you a general question. Do you feel that changes are necessary or are you satisfied with the insurance funds as they are?

CHANGES NEEDED IN THE DEPOSITORY INSURANCE INDUSTRY

Mr. GOULD. I think it would be true from a personal point of view and indeed from the point of view of my coworkers at the Treasury that we feel that there should be some changes in the depository insurance system, some of which really reflect the changes again in the underlying structures. I think it's hard to talk about deposit insurance without talking about the nature of the animal that is being insured and as those animals have changed their spots I think it's also necessary to try to adapt the insurance system to those changes.

I think it is necessary to recognize that within the banking system generally there are varying degrees of risk depending upon the nature of the institutions, and I think that should be addressed.

The CHAIRMAN. When we have you back we're going to want to have some specific positions on risk-related premiums, risk-related capital, a big issue of whether or not the funds should be merged—there is great controversy among those, many who think they should, others who are so absolutely opposed they're ready to lay their bodies there in the hearing room and not leave until we say we would not even consider that. So I hope you will be able to formulate as soon as possible some administration positions on some of those issues so you can come back and say we either favor or we do not favor merger, we favor risk-related premiums or we do not, or risk-related capital. So what I'm saying is we're letting you off the hook with general answers today, but next time you come back we will want some very specific recommendations in these areas.

Mr. GOULD. We will be prepared to do that without equivocating with you and tell you what we think should happen from our point of view and why we feel so.

The CHAIRMAN. Senator Proxmire.

Senator PROXMIRE. Mr. Chairman, I have a number of questions here but I understand that Senator Cranston has another meeting that he has to attend and I'm going to yield a minute of my time or a couple minutes of my time first to him.

Senator CRANSTON. Thank you very much.

I welcome you to this hearing.

Mr. GOULD. Thank you, sir.

Senator CRANSTON. I will ask just a very few brief questions and if you can give brief answers so that I can get several in before I yield back to Senator Proxmire I would appreciate it.

First, given the deficit situation, do you believe that we can deal with it adequately without at some point having some kind of a revenue enhancement?

Mr. GOULD. When you ask me to give a brief answer to that question, Senator, I don't quite know where to begin.

I think certainly that the deficit can be diminished substantially from its present level with a certain level of growth in the economy so that one source of revenue enhancement, to use that phrase, can indeed come from higher revenues based on current tax rates that are a function of a healthy and strong economy.

I am familiar with various arguments that economists make with respect to the cyclical part of the deficit and the structural part of the deficit and I am familiar that a number of economists hold that no degree of growth that is realistic can totally deal with the structural element of the deficit without there being either reductions in the spending levels or indeed unless there were to be, from one source or another, additional tax revenues.

I don't feel I am professionally qualified to referee that latter argument, but I am hopeful that a level of real growth in the economy can do a great deal toward bringing the deficit down to much more manageable levels.

Senator CRANSTON. Do you think the President should have more of a voice in monetary policy than he has under present law?

Mr. GOULD. That's an interesting question. I am not aware at the moment that there is any substantial conflict between the monetary policy of the Fed and the thinking of this administration. I realize that in the past there have been times when such arguments between one side's view of the growth of M1, or M2, or M3 and the other side's were different.

I would try to answer it on the record. I think that there have been times in history when the independence of the Federal Reserve was an important factor in the health of the economy and, although I always believe in consultation between interested parties and I think that consultation goes on, I would personally not argue that the independence of the Fed be precluded in the determination of monetary policy.

Senator CRANSTON. I have proposed in legislation S. 10 that the Treasury Secretary be returned to membership on the Fed Board where the Secretary once sat to get more at least coordination. Do you think that would be a helpful step?

Mr. GOULD. Well, I think that falls in the general category that I think of as consultation. So often in life I have found that the ability to consult and deal is a function of personality as much as it is of rules and regulation. Some people find it easy to work together and to listen to one another and other people don't.

In the present instance, I find that Mr. Volcker and Mr. Baker have a very good relationship and talk and consult and are basically trying to achieve the same ends. To formalize it in terms of

having the Secretary of the Treasury on the Board might be a way to facilitate continued consultation.

Senator CRANSTON. Do you believe the Federal Government should support specialized lenders for housing and continue to allocate funds for housing by special incentives?

Mr. GOULD. Well, I think we do that now, Senator, to such a degree that if I were to answer that question in the negative I think I would be arguing for the dismantling of some major financial institutions. Both the structure of the thrift industry and indeed the various "Mae's"—Fannie Mae, et cetera—basically are devices to allocate capital to the housing industry. I would not recommend dismantling those and indeed in terms of the ability to allocate resources to that area I think they have worked substantially well.

Senator CRANSTON. One last question. What are your views on the premise held by some that housing financing takes up too much of the capital market?

Mr. GOULD. Well, it seems to me there's always been something magic about housing in America. I remember back even to my college days and taking courses in economics that always seemed to be influenced by the American dream of home ownership, and I have again read a number of economic pieces which do suggest that we overemphasize that and that some of those assets should be allocated elsewhere.

In the end, I feel that the market is the best determinant of that and if indeed we're allocating too much capital and we overbuild in that sector, I think the market will tell us and there simply won't be the end market for the product and that will take care of itself.

I think it is now an adequate flow and I don't think the system needs much tinkering with.

Senator CRANSTON. I thank you very much and, Bill, I thank you.

Senator PROXMIRE. The chairman had to step out for a phone call. He will be right back.

Mr. Gould, there have been internal Treasury studies I understand that purport to establish that there is no link between the size of the Federal budget deficit and the level of interest rates. That seems to fly in the face of commonsense to me.

As Mr. Kaufmann pointed out, borrowing by the Federal Government amounts to more than three-quarters of the new savings of the American people. It constitutes a big element of demand and therefore the price of credit or interest rates should be higher when we have a big deficit.

As you know, the view that the Treasury has expressed that there is no connection has been greeted with considerable skepticism by the financial and business community in Wall Street and elsewhere.

SIZE OF DEFICIT VERSUS LEVEL OF INTEREST RATES

What's your view on the issue? Does the size of the deficit influence the level of interest rates or not?

Mr. GOULD. Well, I have not seen the specific study to which you refer, Senator. I have also heard that there are sorts of these of

that nature, but I have not heard them well articulated in my time in that building.

I have also been acquainted with Henry Kaufmann for many years and have always enjoyed my sessions with him and I am acquainted with his crowding-out theory. I wonder, though, whether the amount of capital that's available at the moment within the banking system, and available for investment generally, doesn't even make Henry Kaufmann scratch his head a little bit and say, "why at the time we're financing a record deficit there is also adequate capital, and indeed at declining prices of capital in terms of interest rates, available for other parts of the economy." So I have no sense at all that there are broad areas of the economy which are suffering because they can't find credit or indeed that they can't find investment.

Senator PROXMIRE. I'm not saying they can't find credit, but it just seems to me to make common sense that if you have a big player in the game, the Federal Government coming in with an enormous increase in borrowing, that that constitutes a force that should, other things being equal, tend to drive interest rates higher. The fact is that we do have very high interest rates in relationship to the level of inflation, historically very high; isn't that right?

Mr. GOULD. Yes, that's true. I agree with you that the common sense aspect of supply and demand would say if there's a great deal of supply of securities, Government securities, to be bought, that that is bound to influence the price level. On the other hand, I think it is also sort of a commonsense approach to say that's both a function of supply and a function of demand and there would seem to be such a level of demand—that is such a degree of liquidity—in the markets that those securities offered even in large quantities find ready buyers at declining prices.

So I think it is very hard to pin down just what the interest rate cost might be of financing the present deficit. I guess I would have to say if we had no deficit at all and therefore we offered $200 billion less of securities to the market that there's a possibility that interest rates could go down further. I agree with you that's my sort of commonsense logic.

But I have also been very impressed by the economy's ability to finance the present deficit and finance every other demand for credit at the same time that interest rates are lessening rather than increasing.

As to the high rate of real interest that we've seen in the last couple years, I think it's been very puzzling in light of the even declining rates of inflation.

There was an interesting study done a year or so ago by a fellow at Morgan-Stanley in New York called Barton Biggs, who's a bit of a strategic thinker, and he did the statistical study which indicated to him that there's such a lag factor in the psychology of fixed income buyers, a sort of a cynicism if you will, that it takes them often 4, 5, 6 years—in some cases, as long as 8 years, to believe that inflation is dead, and the first time inflation goes down they're not back in the long-term fixed income market. Indeed, you have to really convince them before they allow real rates of interest to decline.

Senator PROXMIRE. Now Senator Cranston got at this in one way. It's a very important question so I want to pursue it a little differently.

REORGANIZING THE FEDERAL RESERVE SYSTEM

I understand there have been studies in the Treasury on reorganizing the Federal Reserve System. Most of these so-called reforms would give the Treasury and the administration a greater voice in the conduct of monetary policy.

Attorney General Meese has said a few days ago, that in his view there shouldn't be any independent agencies at all, that the Constitution is very clear that the President has the power to enforce the laws of this country and Congress can pass whatever laws they want to but then it's up to the President to enforce them and nobody should be independent of the President. That seems to be a very emphatic view.

There have been articles in the New York Times and elsewhere saying that the first victim would probably be the Federal Reserve System if this view of the Attorney General were to prevail.

Do you think that the Treasury should have a greater voice in monetary policy and do you support the continued independence of the Federal Reserve and do you agree or disagree with that view expressed by the Attorney General, Mr. Meese?

Mr. GOULD. Well, as I tried to say to Senator Cranston, I think that the independence of the Federal Reserve over periods of time, particularly in the post-war period, have served the economy well.

Senator PROXMIRE. You said that, but what I want to hear from you is, whether it's served us well or not, whether you think that (a) there's a constitutional basis for it; and (b) that the independence of the Federal Reserve is essential to avoid the political influence that otherwise would affect our monetary policy.

Mr. GOULD. Well, let me quickly disclaim my ability to pass judgment on the constitutional aspects of it that are just quite beyond my knowledge.

As to the independence of the Federal Reserve, when I say it has served the country well, I think one of the reasons it has served the country well is it has been an independent balance wheel, if you will. I think one of the problems we have to live with and will continue to have to live with in so many ways in this economy is an increased volatility. The amplitudes of the swings are historically unprecedented and if everything were politically controlled I think, if anything, the amplitude of those swings could be greater rather than dampened down by an independent monetary agency.

I think, therefore, an independent Fed provides this sort of balance wheel that is not as politically sensitive as certain other areas of the Government and I think that has, on balance, served the economy well.

I am sure that the world is complex enough now so that there are lots of opportunities for reasonable people to have different views and I am sure that when there have been different views of administrations in the plural and the Federal Reserve, very often that hasn't been based merely upon desire of an administration to

exercise political will over the Federal Reserve, but rather because there were very different views.

Certainly, Senator, I don't have to tell you that the competing fields of economists between supplysiders and monetarists and various others represent strongly held, honest views that are very hard to find the evidence at the moment to resolve the differences.

Senator PROXMIRE. My time is up. When I come back I want to pursue the Meese question. I don't think you had a chance to respond to that.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman.

IMPACT OF THE OVERVALUED DOLLAR

I want to welcome Mr. Gould before the committee this morning and say that we have been troubled gravely in recent years by what many conceive to be an overvalued dollar in the world currency market—overvalued, it's been estimated at one point, as much as 40 percent vis-a-vis other currencies, although this overvaluation has declined somewhat in recent months.

Many economists say—and I suspect they are correct—that the overvalued dollar is probably the most serious factor in the adverse trade balances that we have experienced over the last 5 years, now reaching a point where it's expected to approach $150 billion this year.

Now, agreed, the overvalued dollar is not the only factor in our adverse trade balance. We had an unfavorable balance of trade back in 1979, as I recall, when many said the dollar was undervalued.

But my question to you, Mr. Gould, after that long introduction, is do you think the Treasury Department has a role to play in trying to stabilize the value of the dollar or to bring the dollar down to a reasonable level? And if Treasury has a role to play, what role would that be?

Mr. GOULD. Well, I should say at the beginning of my response, Senator, that since I have not been confirmed—and Jim Baker is pretty strict in this regard—I have not been privy to certain meetings and certain policy decisions because it simply wasn't appropriate as an unconfirmed person for me to be involved. Thus, I cannot speak from personal knowledge of the G–5 meeting and its preparations or of some of the other efforts that have gone on in the Treasury and with the Federal Reserve.

Nonetheless, literally from reading the newspapers, I think what has happened is one example of how the Treasury can exercise leadership and indeed overt action in terms of intervention to affect the level of the dollar. I think the coordination aspects of it, and again, where the Treasury can exercise a leadership role, however, is very important because it has been pointed out that intervention alone is not adequate, that there has to be a coordination of economic policies among the G–5 and other nations in order to have a long-term beneficial effect on the dollar, beneficial being defined as downward pressure.

And I find in many respects, this included, that the Treasury's role is often acting as a catalyst, acting as a leader and adviser even in areas where its statutory power does not extend.

So I think Jim Baker's initiative here has so far had very good results and I would expect to continue to see those results and I think that's a very good overt example of the Treasury's role.

Senator SASSER. Well, as a general statement then, Mr. Gould, I judge that you agree that Government, specifically the Treasury, does have some role to play in determining the value of our currency in the world market. I don't mean to put you in an adversary position with others, but you would not agree with some of your predecessors—at least one of your predecessors—in Treasury who simply said, "We can't do anything about the value of the dollar on the world currency market; we should leave it alone; we can't influence it, and we're at the mercy of market forces in that regard."

Mr. GOULD. Well, the best I can say in that respect is that I think this Treasury is already on the record of having an involvement through the G-5 meeting in New York and that I think conditions change and sometimes you can play a role and there are other times when you sit back and let the market do whatever the market is determined to do.

I think—again, I'm not privy to this and I should point out perhaps that, unlike my predecessor in my job, I do not have as part of my job description monetary policy. That is part of the redefinition to which Senator Proxmire referred earlier. So I do not get directly involved in some of these issues the way Beryl Sprinkel and others whose title of Under Secretary for Monetary Affairs might have done. So I'm in a way an outside observer looking at what other parts of the Treasury does.

Senator SASSER. Thank you.

The CHAIRMAN. Senator Dixon.

Senator DIXON. I have no questions of Mr. Gould, Mr. Chairman. I have a statement for the record and I'm pleased to have had the opportunity to listen to him this morning.

[Senators D'Amato's and Dixon's statements follow:]

STATEMENT OF SENATOR ALFONSE M. D'AMATO

Senator D'AMATO. I would like to welcome George Gould, the administration's nominee to the position of Under Secretary of the Treasury, to the first of his many appearances before this committee. Although George was not born in New York, but he has spent the majority of his adult life residing in New York City. While his State of residence alone highly recommends him to the position to which he has been nominated, a review of his academic and professional achievements reveals that he is highly qualified for the position of Under Secretary.

George has had a vast amount of experience in financing governmental debt as an investment adviser to several prominent firms and as the chairman of numerous New York State agencies. The State of New York has benefited greatly from the years of public service that George has contributed to the municipal assistance corporation, the New York Finance Agency, the New York State Municipal Bond Agency and others.

George will arrive at Treasury in the midst of a debate over the Federal regulation of the Government securities markets. While I have been encouraged by Treasury's recent revelation that some form of Federal regulation of this market is appropriate, I remain skeptical of any legislation that invests the Treasury Department with the authority to regulate Government securities dealers. The addition of George's voice to this debate will hopefully encourage the Treasury to reach new levels of enlightenment on this issue.

The issues of the deficit, the financing of this deficit and tax reform will also be addressed during George's tenure. While these issues are not easily resolved, I am certain George will provide superior counsel to the President and the Congress in our attempts to address them.

I believe that we should feel fortunate that a man of George's caliber will serve in such an important position at the Treasury Department. I look forward to working with him in the future.

STATEMENT OF SENATOR ALAN DIXON

Senator DIXON. Mr. Chairman, I am pleased to be here this morning as the Senate Banking Committee reviews the nomination of George D. Gould to be Under Secretary of the Treasury. I know this nomination has already been considered by the Senate Finance Committee, but given the role Mr. Gould will play at the Treasury Department, I believe it is essential that the Banking Committee also consider his nomination.

I understand that Mr. Gould, if confirmed, will be in charge of most, if not all, of the Government's domestic financial matters. This responsibility effectively makes him the Government's banker, and as such, the Banking Committee has an important jurisdictional interest in his nomination.

Mr. Gould has been asked to serve at the Treasury Department by the President at a time of great turmoil in the Government's financial situation. The Government has been at the debt limit for over a month now, and we are in an ever-deepening crisis. I will not take the time of my colleagues to discuss this overall crisis now. I do want to point out, however, that one of the real victims of this crisis has been the Treasury Department's credibility as, time after time, dire consequences forecast by Treasury have failed to materialize.

I do not want to make too much of this point. I'm pleased that Treasury has been able to find a way to keep the Government functioning as Congress struggles to resolve the very difficult issues and contentious issues associated with the debt ceiling bill. I would hope, however, that Mr. Gould, if confirmed, would work to improve Treasury's communications ability on these financial matters. I think the Treasury Department's reputation has been battered in recent weeks, and I hope Mr. Gould can help restore it.

I look forward to hearing from the nominee this morning, and to learning more about his views on the issues I have raised and on issues of concern to my colleagues on the committee.

The CHAIRMAN. Senator Proxmire.

Senator PROXMIRE. Thank you, Mr. Chairman.

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I want to get back to that Meese statement a little later. I want to get the precise statement that Mr. Meese made.

Let me ask you this. U.S. banks are not charged an FDIC insurance premium against their foreign deposits, even though they have de facto FDIC insurance coverage as we saw in the case of the Continental Bank in a really big way.

Do you think it's fair for the rest of the banks to allow the largest banks to avoid paying a premium on their foreign deposits?

Mr. GOULD. Well, I think it's a rather complicated subject, Senator. The banks so far to me have made a reasonably convincing case in my conversations with them that to extend Federal insurance to foreign deposits would put them at a substantial competitive disadvantage. The margins abroad are particularly thin as banks compete with one another and I would hate to see us lose the opportunity to function competitively and indeed to see our banks not get funding sources abroad because we make it quite unprofitable for them to deal in that arena.

On the other hand, the issue of fairness I think is unavoidably on the table and my attitude to that has been that that's almost an issue which I feel the banking industry should settle among themselves. It's their issue of fairness. I have found a number of regional and other bankers whom I would have expected to object to it who really don't, and if I remember some of the past testimony of Bill Isaac, he started with the premise that the size of this fund in FDIC was adequate and therefore it wasn't a matter of needing more premium income so that by charging on foreign deposits you got a higher stream of income to FDIC, but really that of equity among the participants.

So I have found it to be less of an economic issue of consequence to the Treasury and more of a question within the banking system that they have a position which they consider to be fair.

EFFECT OF HUGE FOREIGN DEPOSITS

Senator PROXMIRE. Mr. Gould, it seems to me that if there's competition here the competition is between the banks that have foreign deposits, which are generally large banks, and banks that don't have them, which are generally the smaller banks. The premium is only one-twelfth of 1 percent. If foreign deposits were covered, it's my understanding you can neutralize the revenue effect at the FDIC by reducing the premium on all deposits. As you say, the FDIC doesn't need more revenues. Therefore, you could reduce the premium to one-fifteenth of 1 percent and benefit the smaller banks to some extent and have a much more equitable situation because there's no question that those foreign deposits are in effect insured.

In fact, as I understand it, one of the big reasons why Continental was prevented from failing--was because these foreign deposits were so very big and that a failure would have had such a devastating effect on our getting deposits from abroad in the future if we permitted Continental to default on about $17 billion in foreign deposits, that is why I approved the Continental rescue although I usually oppose bailouts very strenuously.

Mr. GOULD. Well, let me touch on one aspect as I understand it, and these are areas in which I hope to be more involved and more knowledgeable in the future. But as I understand it, one of the concerns about saying all foreign deposits are insured is that it can get us into some very awkward situations in foreign branches in countries where there is a revolution, or strife, or problems of that sort, of basically creating liabilities for the fund from which at the present time we could extricate ourselves.

So I am not sure that I agree with the thought that all foreign deposits are de facto insured at the present time. I could see in the case of Continental Illinois where there were foreign deposits that basically it was in the national interest to say that they were insured. I can see how that could happen, but I really think there's an argument to do that on a case-by-case basis. I am not convinced that all foreign deposits are de facto insured, but if we did charge them premiums we have then made them de facto insured. I think we have to balance the risks we undertake to the fund against the issue of equity or fairness between large banks and small banks. You may be much more knowledgeable, Senator, than I am as to the degree that's an issue with the small banks, but I have not found it the issue with the medium-sized banks that I might have expected.

Senator PROXMIRE. Well, of course, nobody likes to give up anything that they have at the present time and people seem to be grasping if they advocate something they don't have. But it seems to me it would be helpful to the banks to have a lighter premium which they would have under these circumstances.

Let me ask you this. Some have said that off-balance sheet liabilities for larger banks need to be more closely supervised. Many of these contingent liabilities, such as standby letters of credit, subject the bank to as much risk as the direct loan but without the need for any supporting capital.

Do you think this is a growing problem and, if so, what do you think we ought to do about it?

Mr. GOULD. Well, how much of a problem it is I don't know yet and, again, it's one of the things that we are trying to study.

Senator PROXMIRE. It's a very large amount.

Mr. GOULD. Yes. The fact that it's growing I think is not arguable. The amount of letters of credit, for example, issued have continued to go up and now constitute very, very substantial amounts of money and I think it is quite important in the whole area of deposit insurance reform to address that problem and to try to have some better measure of the degree of liability that may exist to the banking system by this issuance.

I think that just because it is new and has grown so rapidly it's probably less understood in terms of the degree of risk inherent in that activity than many of the more traditional activities of the bank. It's very well worth looking at and should be very carefully studied and addressed.

Senator PROXMIRE. Last year, as you know, we had the largest number of bank failures in 50 years, 78. Actually, it was a pretty good showing when you compare it with any other industry; 78 failures out of 11,000 independent banks is not a bad record.

This year we already have well over 100 bank failures. They're increasing.

What changes would you like to see in our Federal Deposit Insurance System over the next year or two?

Mr. GOULD. Well, perhaps that prejudges a little bit coming up to testify before you on that subject. Let me try to give you a couple of broad answers if I may, sir.

CONFUSION IN THE MIXING OF SUPERVISION AND REGULATION

One of the things that I found in coming down here and functioning as a consultant while waiting to be confirmed, I've used the time as sort of a study period and talked to a number of people and read a lot. One of the things that I find has become confused from my point of view is the mixing of supervision and regulation.

It seems to me the thrust of the last few years has been to deregulate powers, including interest rate controls, but it does not strike me that implicit in that type of deregulation is the thought that you eliminate supervision. In fact, I think in a commonsense sort of way again, there's almost the argument that the more you spread powers or the more activities you allow—the nontraditional activities in the banking system—there's almost the need for more sort of looking over the shoulder to see how these new activities are going.

So to bring that more specifically as an answer to your question, I think one of the things that has to be addressed in deposit insurance reform is the ability of the regulatory agencies to properly supervise an increasingly complex group of institutions and that extends all the way from the ability to compensate and hire supervisors to training, to cease and desist orders in some instances, and perhaps even to coordination among the regulatory agencies as to uniform standards. I think that, at this moment in time, is one of the most important.

I think that another area that has gotten a bit confused in the literature and some of the comments people have made is that there is in my mind a sharp differentiation between the owners of institutions and the depositors. The depositors are insured by the Federal Government. The Federal Government has a liability in that regard. And the owners of institutions when they speculate successfully reap the rewards and when they fail should pay the penalty. We have to address in a very careful way the separation of the Government's responsibility—that is, toward the depositors—and we should separate the risk and put the risk of broadened powers and the risk of more speculative activity on the backs of the owners, if you will, because they are the beneficiaries of success and therefore should bear the risk of failure; and, in a way, make sure we don't mix those two quite disparate groups together in terms of the way we structure our insurance.

Senator PROXMIRE. Many people feel that despite the recent increases our large banks are still seriously under-capitalized and that some of our small banks are too, and that's one of the reasons why we've had the failures we've had in recent years.

Do you share that view and, if so, what do you regard as a desirable level of capital for our largest banks?

Mr. GOULD. Well, I find that an interesting and really quite complex almost catch-22 type of question.

Senator PROXMIRE. Let me just interrupt by saying that Arthur Burns used to say that the rule of thumb was about 8 percent capitalization. As you know, now that would be much higher than most of our big banks have. It's closer to 5 or 6.

Mr. GOULD. I think, again in a commonsense way, there's a desire to say the more capital there is, the more cushion that exists between the depositors, if you will, and a call on the various Federal insurance funds and, therefore, it's an argument on its face for having more capital. We would like to cushion the taxpayers' money involvement in bank failures by having more capital of the owners at risk.

However, when you get past that sort of generalization, I think you get into some complex questions of the competitive position of the commercial banking industry in America today. The commercial banking system has consistently in the last 15 and perhaps last 20 years lost market share of its traditional market, which I would define as commercial and industrial loans. The trend toward securitization, the rise of indeed even junk bonds for lesser credits, and surely commercial paper has eliminated a measurable arena of traditional activity for the banks. They will tell you the reason that has happened is after they take into calculation their capital requirements, they are not competitive often with the open market in terms of loan rates.

So the imposition of higher capital, although I think it is a good protective device for the insurance funds, continues to make the commercial banking system less competitive in its traditional arena and so we run into that conflict. Many banks would tell you that indeed forces them to make higher risk, high-rate loans in order to compensate for the additional requirements of the higher level of capital.

So it's a rather catch-22 area and I think it should be looked at in conjunction with willingness to grant banks other powers to compensate for loss of market share that may have occurred. It becomes to me a rather broad question and a question of one's total attitude toward the banking structure.

Senator PROXMIRE. It just seems to be such obvious common sense that if the banks had a higher capital ratio they would be safer. Continental, for instance, in about 1964 had a capital ratio of about 10 percent. When they went bellyup they had 5 percent. If they had still had 10 percent in 1984, there would have been no problem. They would have been able to make it.

Mr. GOULD. Well, I think there are a number of ways to sort of approach the problem. As the chairman said to me earlier, he hopes we will come back and have specific attitudes in terms of variable capital rates depending upon risks, and variable insurance rates and others factors, and I think there are different ways to get at that.

For example, one of the suggestions of Chairman Gray of the Bank Board is that your amount of capital should be connected to your rate of growth. That would have been a very interesting overlay to put on the Continental Illinois situation, where for the Continental Illinois—one of its problems it would seem, in retrospect,

was a very rapid rate of growth based on, in effect, brokered deposits.

Senator PROXMIRE. Let me just interrupt by saying that it's my understanding that the savings and loan industry is in terrible shape in terms of capital ratios because of the way they figure their capital and that there's been some estimates that as much as 10 or 12 percent of them are insolvent. That's a terrible problem for our country as well as a very serious problem for depositors and borrowers.

Mr. GOULD. Yes. I'm referring to the rules that Chairman Gray put in fairly recently with respect to capital requirements and the rate of growth, particularly brokered deposits, that his industry could have. But as to the S&L industry generally, I am rather dependent so far on the Home Loan Bank Board's own utterances and I think Chairman Gray's positions on the capital problems are quite well known. Indeed even as recently as this week he made a speech in Dallas which addresses the fact that there is, starting with interest rate mismatches and then going on to quality aspects, a problem in many of the savings and loans.

Senator PROXMIRE. I apologize to you, Mr. Gould, and to the chairman for taking so long, but you are occupying a very important position and I do want to persist a little further.

Mr. GOULD. All right, sir.

Senator PROXMIRE. The administration has recommended at a hearing Senator Heinz conducted the other day of the International Finance Subcommittee of this committee that $300 million be appropriated to the Treasury to be used as a war chest for providing direct cash subsidies to U.S. exporters. Exporters have contended the amount should be higher and that the fund should be appropriated to the Export-Import Bank rather than the Treasury.

What would be the position of the administration on the bill if these changes were made?

Mr. GOULD. Senator, I have to say in all honesty, I have no idea. It's not a subject with which I've been connected or indeed have any personal knowledge at all, sir.

Senator PROXMIRE. As you know, this committee has jurisdiction over the Federal Financing Bank which has recently been used to help get us over this period when this debt limit has been a serious problem.

We've tried over the years with limited success to include the operations of the Federal Financing Bank in the budget.

Can you think of any good reason why the Federal Financing Bank should be off-budget which it is?

Mr. GOULD. No. My understanding is that in fact OMB is treating or looking at—I don't know what the right phrase should be—the Federal Financing Bank in effect as an on-budget item and I believe there has been a body of thought which feels it should be on-budget.

Senator PROXMIRE. I think it should be. Of course, it would be a tougher problem for us. We have an enormous deficit anyway, but if we're honest about our accounting obligations of the Federal Government it seems to me it ought to be treated like every other matter of that kind.

Except for the U.S. Treasury, there seems to be a widespread consensus that we need to regulate those Government security dealers that are presently unregulated. Even the major firms on Wall Street believe legislation is needed. A substantial majority from both political parties in both the House and Senate agree that legislation is needed. The Federal Reserve agrees.

Why is the Treasury the only holdout and what will you do to break the impasse?

Mr. GOULD. Well, we're really not a holdout, sir. We are in the process very shortly actually of introducing or hoping to have introduced a Treasury bill with respect to Government security dealers which has been written in a way that goes back to an agreement between the SEC, the Federal Reserve, and the Treasury earlier this year and which I think the industry has found acceptable and which I believe the Chairman of the Federal Reserve and the Chairman of the Securities and Exchange Commission also find acceptable.

So we are no longer a holdout and we should have that bill available within a week or so.

PROBLEMS IN THE FARM CREDIT SYSTEM

Senator PROXMIRE. One of our most imperative and immediate problems, of course, is the farm credit situation. Banks contend that if Congress provides any financial relief to the Farm Credit System the commercial banks involved in agricultural lending should be entitled to the same relief.

Without getting into the question of whether the Farm Credit System needs or doesn't need help, what do you think of the general proposition that whatever is done for the Farm Credit banks is equally available to the commercial banks?

Mr. GOULD. I think that question raises an interesting point which I think we're all going to have to face over the next few years, and that in my mind is the question of fairness. I keep hearing people come into the Treasury and say, "You have to treat me equally because it's only fair that you do so." And one of the things that strikes me is that it's like the comparison of imponderables as to what in my mind often is fair. If something were done for Farm Credit and not done for ag banks and commercial banks and they were to say, "Gee, it isn't fair," the mechanism by which to create fairness in their view is taxpayers' money.

So the balance often to me becomes: Is it fair to take general taxpayers' funds and bail out areas? Is that what should be in opposition to doing something merely for a Farm Credit System.

Now there is also I think an argument—the Government having no money of its own, the only source of Government money being taxpayers' money, the issue of fairness to me takes on a much broader aspect than merely between the Farm Credit System and other banks lending in the area.

Senator PROXMIRE. Well, I think that's a very good answer. I think that's something we've neglected. I think you're absolutely 100 percent correct. We forget the taxpayer in this thing and he's always the fall guy. It's true that the Farm Credit System is essential for our agriculture and agriculture has been in a disastrous

condition, but you're absolutely right that we have to consider what that would do to the taxpayer.

HAS DEREGULATION RUN ITS COURSE?

Some people are suggesting that bank deregulation has gone too far and that we need to think more about reregulation. In particular, they say that given the present condition of the banks this is no time to be considering new powers for banks or bank holding companies.

Can you give us your views on this? Has deregulation run its course or do you support last year's administration bill allowing bank holding companies to engage in a wide variety of new financial services, including securities, real estate, and insurance?

Mr. GOULD. Well, I think it is our view, sir, that deregulation has not gone too far and that we would not be at all a voice for reregulating. We would be a voice for adequate supervision, but not reregulation defined as the rolling back of powers.

Although safety and soundness, as Jim Baker has said in his testimony before this committee earlier in the year, is his prime concern, I don't think one can make the argument at least in the commercial banking system that new powers have been the cause of additional risk to the system as it now exists.

Indeed, I think the argument can be made that banks losing share of traditional business really need some new powers in order to remain competitive and indeed therefore to remain more sound and safe.

But we have argued and would continue to argue for a separation—a holding company level, for example—of new activities so that we don't endanger the depository base by mixing in new activities that don't have a long track record yet.

So we see a rather sharp differentiation between the depository institution and a holding company where new powers and new streams of income have been and could be created.

I don't think we would at this point in time press for an extended laundry list of new powers because I think it is sort of common sense or practical again to give some powers and see how it goes without handing someone an entire panoply of things at the front-end. The types of things we have talked about and would still talk about are commercial paper and mutual funds and things of that sort.

Senator PROXMIRE. I was just handed the article that I read the other day and it's quite a long article on the Meese question, so let me just read part of it and get your specific comments on what Mr. Meese actually said.

He said that the entire system of independent agencies may be unconstitutional. He said that the Framers of the Constitution did not intend Federal agencies to be independent of the President or to be run by bureaucrats who are not politically accountable. The clear implication was that a President should be free to remove all Federal officials in exercising law enforcement powers. Powers granted to the Congress should be properly understood as powers granted to the Executive. It should be up to the President to enforce the law.

He goes on to say that most independent Government agencies are authorized by Congress to carry out under one roof the so-called quasi-legislative functions of issuing rules and regulations, and quasi-prosecutorial functions of bringing charges against suspected violators, and quasi-judicial functions of deciding whether violations have occurred.

Mr. Meese said in his September speech that the constitutionality of a fourth branch of Government made up of such independent agencies was undermined by two 1983 rulings in which the Supreme Court struck down legislative vetos and stressed the division of powers between Congress, the President, and the judiciary.

Federal agencies performing executive functions are themselves properly agents of the Executive. They are not quasi-this or independent-that. In a tripartite scheme of Government, a body with enforcement powers is part of the executive branch of Government.

Do you agree in general with that view? I know it's a very difficult question to ask you and I know it's always easy for us to ask about differences that may occur between various people in the executive branch, but this is a very important problem to us and I would be interested in your answer, given your marvelous academic record and your fine record in business. I don't know anybody who could answer that question with more ability than you can.

Mr. GOULD. With that buildup, Senator, I feel like I'm speechless. Obviously, I have no idea about the constitutional aspects of it.

Senator PROXMIRE. Why not? You don't have to be a lawyer. I'm not a lawyer. The chairman is not a lawyer. It seems to me you don't have to be a lawyer to understand it. Mr. Meese makes the case rather starkly and clearly. Is he right or wrong?

SEPARATIONS OR INDEPENDENCE OF AGENCIES CREATE LACK OF ACCOUNTABILITY

Mr. GOULD. What does strike me about it—and since I'm very much a new boy in town, I don't want to appear as though I'm an expert on the functioning of Government, but having come from the private sector, one thing that even after a short time here is apparent to me is that there is not the accountability, the specific accountability, in the way things seems to work here as there is in the private sector. In Attorney General Meese's comments, certainly to the degree that separations or independence creates lack of accountability, I would agree with him that that is not a good thing. I feel that people should, one, have to make decisions ultimately; and two in the making of those decisions should bear some responsibility to the system as a whole for the efficacy of their decisionmaking.

Senator PROXMIRE. Let me just interrupt to say that there's accountability. These agencies are accountable to the Congress. We have the Federal Reserve Chairman up here and other members of the Federal Reserve Board up here often. And the chairman of this committee and others pursue him, and so does the House. There's clear accountability to the Congress. These agencies aren't created to be unaccountable to anyone.

The question is whether or not we can create agencies, make them accountable to us, or whether they also have to be accounta-

ble and primarily accountable to the President of the United States.

Mr. GOULD. Well, if I'm going to play amateur constitutional expert, I've always been fascinated by the English system in the sense of whether or not that is a system which allows greater progress, greater implementation more readily than the system we function under here where we have the so-called checks and balances.

I am aware from schoolboy days in a very superficial way of the concept of checks and balances being that perhaps no one is right 100 percent of the time and therefore we shouldn't allow a system which is only responsible to one branch of the Government lest they run rampant in some fashion or run amock.

I am also aware as someone from Wall Street, as an observer of the scene, that occasionally the checks and balances seem to frustrate the implementation of policy and if you had an English system where the majority party and the executive branch were the same, that sometimes it's quicker and maybe easier to get things pushed through.

I find it very difficult to reach an answer because I can theorize the good and bad of both, and if these agencies were responsible only to the executive branch it is possible that an overall policy could be implemented and implemented more swiftly, but it also assumes that the judgment of the populace in this country is that they want that sort of one-branch ability to carry things out without subjecting them to the checks and balances of the rest of the system.

I find it almost the type of thing to the subject of referendum rather than someone sitting in judgment on my part of which works better.

Senator PROXMIRE. Well, I disagree with that answer but I think it's a very interesting and thoughtful one.

I agree with the chairman in pressing so hard to have some opportunity for this committee to have jurisdiction over your appointment and I think the chairman, as he so often has done, has strengthened this committee in doing so.

I want to thank you, Mr. Gould, for your answers. I think you're most impressive and I'm certainly going to enthusiastically support your confirmation.

I do think that we have some very, very tough problems and I hope we can work with you in the future.

Thank you, Mr. Chairman.

Mr. GOULD. Senator, in light of my understanding of your views of some of my predecessors, I would be most flattered if I could have your vote.

The CHAIRMAN. Mr. Gould, we appreciate you being here today. I have no additional questions at this time. We'll save them for the next session when we can get into a great deal more specifics.

But I would like to say to you that you profess to be a new boy on the block down here, but after Senator Proxmire and I have sat here for years and delved into all sorts of these issues and heard all sorts of testimony, from listening to you talk, even though most of your answers of necessity had to be rather general, it is evident to me that you have done your homework. You have said enough

things throughout your conversation that it is evident you really have studied. You've touched on the issues and hit many of the key buzz words that would take study in order to indicate that you have done a great deal of study. I'm sure that, if left to your own devices and able to answer as an individual, we could have been much more hard in asking for specific recommendations but that is not your function as Under Secretary to present just your personal opinions but the position of the administration.

I appreciate very much your being here. We'll look forward to having you back as soon as we can to present those administration positions on these issues.

Senator PROXMIRE. Mr. Chairman, I have some questions for the record, too. I would appreciate it if Mr. Gould could answer those.

The CHAIRMAN. Senator Mattingly also had some. I certainly have no objections to questions for the record for answers in writing. That is routine. We were given a deadline by the Senate of reporting by next Friday. So if you could respond to those questions as quickly as possible.

Mr. GOULD. These are questions in writing, sir?

The CHAIRMAN. Yes.

Senator PROXMIRE. We'll have those questions to you today.

Mr. GOULD. All right, sir.

The CHAIRMAN. Thank you very much.

Mr. GOULD. Thank you very much.

The CHAIRMAN. The committee is adjourned.

[Whereupon, at 10:45 a.m., the hearing was adjourned.]

[Response to written questions of Senators Proxmire and Mattingly and a biographical sketch of nominee follow:]

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

November 7, 1985

Dear Chairman Garn:

I am pleased to submit my answers to questions raised by Committee members in connection with the November 7 confirmation hearing. If there is anything else I can do to assist the Committee in its deliberations, please let me know.

Sincerely,

George D. Gould

RESPONSE TO WRITTEN QUESTIONS OF SENATOR PROXMIRE

Question

What is your view of regional banking with a five-year trigger for nation-wide banking?

Answer

The five-year trigger adopted by the House Banking Committee provides a reasonable time period for regional banks to make the transition to full interstate banking. Product and geographic deregulation will likely lead to at least some degree of consolidation within the financial services industry. This consolidation, however, will be accompanied by increased competition and the ensuing consurer benefits of a wider variety of services at lower prices. We also believe that local banks will be able to retain a niche based on the specific services they can offer.

Furthermore, the Administration is not convinced that combinations of large depository insitutions or financial services firms are inherently bad. We believe that current antitrust laws are adequate to deal with the expressed concerns about the potential for undue concentration of resources. Under the interstate banking proposals we are supporting, the decision of whether or not to participate is left up to the individual states. They can opt out by foregoing their regional compacts.

At the same time, we are aware that there is not general agreement on a five year trigger even within the banking industry. Thus, the Administration urges Congress not to let this particular issue impede progress on other important issues facing the financial services industry.

Question

Both the past Chairman of the FDIC, Mr. Isaac, and the Chairman of the Home Loan Bank Board have argued that brokered deposits are a serious threat to the safety and soundness of financial institutions. Do you agree with the assessment?

Answer

The Administration understands the concerns of the deposit insurance agencies regarding the excessive use of brokered deposits. However, we believe that brokered deposits play a legitimate market role by providing access to national money markets for small and medium-sized institutions, and by serving as a means for the efficient distribution of capital.

Brokered deposits per se, then, do not pose a serious threat to the safety and soundness of financial institutions. Our concern focuses, rather, on the misuse of these funds by problem institutions. In accordance with this view, we have supported efforts by the regulators to identify and closely monitor institutions with brokered deposits and to restrict access to brokered funds by problem institutions. In addition, we have supported the provision in last year's Financial Services Competitive Equity Act that would have prohibited institutions from accepting insured short-term brokered deposits in excess of the lesser of 200 percent of an institution's capital and surplus or 15 percent of total deposits.

In summary, we would support retaining the market for brokered deposits while imposing prudent limitations on their use.

Question

Chairman Gray of the Home Loan Bank Board has said the FSLIC doesn't have nearly enough money to deal with the large number of problem thrifts that should be closed because they are insolvent. He said there are only three sources of funds -- from the savings and loan industry, from the commercial banking industry through the FDIC, or from the general taxpayer. Do you share Chairman Gray's assessment of the condition of the thrift industry and would you be willing to recommend that Congress appropriate more money to bail-out the FSLIC?

Answer

Chairman Gray, as the head of the federal agency that regulates thrift institutions, is in a position to know more about the industry than anyone else; therefore, we in the Administration take seriously his assessment of the condition of the thrift industry.

Given the problems in the industry, the Administration is currently reviewing alternative ways to strengthen the FSLIC fund and we expect to have a set of recommendations soon. We are reviewing a wide range of assistance measures that embrace new sources of financing as well as other methods which would reduce the potential burden on the fund. We look forward to working with the industry and Congress to develop a program that will adequately strengthen the deposit insurance system.

Question

If you are confirmed, will you make your decisions on new banking powers, whether product or geographic, solely on the basis of the merits and not as a means to bargain with the banks on other matters (such as the Administration's plan to resolve the foreign debt problem)?

Answer

We have no intention of using the Administration's influence on domestic banking policy to force banks into lending more money to debtor countries. The Administration's positions on product and geographic deregulation are based on specific policy objectives that are different from the objectives of its foreign debt proposal. Authorizing bank holding companies to provide additional products and services would provide consumers with the benefits of enhanced competition and permit banking organizations to compete equally with nonbank financial service firms. Eliminating geographic restrictions on banking also would benefit consumers and strengthen the banking system. Providing debtor nations with additional funding from U.S. banks, on the other hand, would strengthen the economies of those countries and increase the likelihood that they will be able to repay outstanding debt to U.S. banks. Our decisions on domestic banking legislation and foreign debt problems will be based on their respective objectives.

Question

This is all by way of a preface to my question about the new plan Secretary Baker announced, at the IMF/World Bank meeting in Seoul, to deal with the international debt problem. One key element of his new 3 point plan is to have the commercial banks put $20 million more in new money into the debtor countries over the next three years. I know that some banks are complaining that the recent emphasis by bank regulators on increasing the capital levels of our banks will make it more difficult for them to come up with the new money for the debtor countries. My own belief, however, is that the capital requirements of our banks are still much too low in light of their international exposure.

If confirmed will you support recent efforts by our bank regulators to have the banks increase their capital levels despite complaints they may make that this is inconsistent with getting them to put more money into the debtor nations? Can you comment?

Answer

I know that some banks believe that the recently required increase in their capital levels is inconsistent with encouraging them to increase their loans outstanding to debtor nations.

However, the Administration and the bank regulators believe that capital requirements must be strengthened. The sharp reduction in inflation over the last couple of years has lead to problems in several sectors of the economy, principally in the areas of agriculture, petroleum and gas production, and real estate development. These are in addition to the problems associated with international lending. In light of these problems, adequate capital levels are essential to reduce the exposure of the deposit insurance funds and to maintain banking system stability. We recognize that increased capital requirements may involve competitive disadvantages relative to foreign institutions and segments of the domestic financial markets that may be less well capitalized, but the Administration is attempting to deal with the competitive position of depository institutions by expanding the types of business in which they can engage to remain competitive with less regulated institutions. In addition the regulators are studying ways to make capital requirements more efficient through the use of risk-related capital. Their work in this connection also may promote competitive equity among institutions assuming similar types of business risk.

Question

One final question in this area. On October 11, 1985, the Washington Post carried an article entitled "International Superbank Proposed." The article noted that the Administration, the Federal Reserve and the major banks are considering forming an international superbank to handle new lending to the debtor countries. The article states that Secretary Baker said the superbank made debt management easier because it would help overcome the problem of bank syndicate lending "where you need so many banks to say yes before any one in the syndicate will go." You have been working in the Treasury on an acting basis since August. Can you tell us what you know of that superbank proposal and whether it is still under consideration? Can you also tell us whether this superbank is something that could be created by the regulators under their present authorities or would Congress need to enact legislation?

Answer

I know that the article in question was misleading. No one in the Treasury has ever used such a term. What has been mentioned is the possibility that, given the large number of banks involved in the complex procedures of loan agreements for the various borrowers, at least some of the banks would find it useful to have some administrative facility that could serve to pool their contributions and simplify the rescheduling and new lending decisions. But this is an issue which the banks should examine, not the Treasury. We would not be involved in any such facility.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MATTINGLY

Question

Congressman Kemp will next week sponsor a conference on the international monetary system. I am a cosponsor of his effort. Will you comment on the occurence of such a conference and what recommendations you would make to improve the floating rate system which hasn't worked as planned or is either out of date?

Answer

We have no objection to a Congressionally sponsored conference on the international monetary system.

It is clear that the current international monetary system has both strengths and weaknesses and that there is a need for improvements in its functioning. These issues are under consideration in the IMF and will be examined in-depth at a meeting of the IMF's Interim Committee in April at which Secretary Baker will represent the United States. In these circumstances, it would be premature and inappropriate for me to make recommendations regarding possible reforms at this time.

Question

I have real problems with the Administration's position of encouraging banks to pump more money into the LDCs. To me, this is recommending chasing good money after bad. At some point, I think we must acknowledge that those investments were not so good, and minimize our losses by writing off those bad loans and not making new ones. Will you comment?

Answer

We believe that provision by banks of some new lending to countries that undertake sound policies is in the interest of all concerned, including the banking system. In this case, we think banks would be using a small amount of good money to help these borrowers grow faster and thereby improve their ability to service external debt, which in turn will make the banks' previous loans sounder.

Question

Yesterday the Wall Street Journal quoted former Treasury Official Charles McLure as follows concerning the tax reform package going through the Ways and Means Committee: "I don't think the tax system that comes out of this will look markedly fairer or markedly more neutral, and will probably be more complicated than current law." Will you comment?

Answer

Fairness and neutrality are two important principles of the President's tax reform proposals, which Mr. McLure helped formulate. The President's proposals for base broadening and reduced tax rates will mean a simpler system for many individual taxpayers. Treasury officials are working closely with Chairman Rostenkowksi and his Ways and Means Committee to develop a sound and acceptable tax reform bill. I believe that it is too early to make any judgments as to the bill that will eventually emerge from the House Ways and Means Committee. The Committee has not yet had an opportunity to discuss and debate many of the issues. All of the decisions it has made so far are tentative. Thus, it is premature to speculate on the likely outcome of the final bill.

Question

Will there come a point where the bill in the House will become so bad that the President will oppose it? By this I mean if many of the deductions recommended to be eliminated are preserved and as a result individual tax rates can't be lowered as much as the President recommended to keep the bill revenue neutral, I hope the Administration will speak out. I had rather see no bill, than a bad bill for the sake of having a tax bill.

Answer

Because the Committee is still developing a tax bill, it is too early to say whether any particular provision of the House bill would be unacceptable to the Administration. I believe that the President has stated very clearly that he considers significant rate reductions as central to the tax reform package. Tax reform must also be revenue neutral. Therefore, to accomplish rate reduction significant base broadening is necessary, as outlined in the President's proposals. I can assure you that the Administration agrees that we do not want a "bad" tax bill -- but we believe that we can work with the Congress to achieve an acceptable bill that will significantly benefit America.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Gould (LAST) George (FIRST) Dana (OTHER)

Position to which nominated: _____ Date of nomination: _____

Date of birth: 22 (DAY) May (MONTH) 1921 (YEAR) Place of birth: Boston, Mass.

Marital status: Married Full name of spouse: Jane Mack Gould

Name and ages of children: George W. Gould

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Yale University	1947-1951	BA	1951
Harvard Business School	1953-1955	MBA	1955

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Graduated from Yale with the award of High Orations and Dean's list for four years. Graduated from Harvard Business School having been elected a Baker Scholar and received my degree with High Distinction. I was elected President of the Centry Club, the Honor Society at Harvard Business School

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
See attachment 1		

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

June 1976 to June 30, 1985	Madison Resources (Oil & Gas Company)	645 Madison Ave. New York, NY 10022	Chairman & CEO
January 1985 to June 30, 1985	Werthelm & Co. (Inv. Bankers)	200 Park Ave. New York, NY 10166	General Partner
1974 to 1976	Donaldson, Lufkin & Jenrette Sec. Corp.	140 Broadway New York, NY 10005	Administrative (Chairman)
Oct. 1961 to 1974	Donaldson, Lufkin & Jenrette	140 Broadway New York, NY 10005	Investment & Administrative
Sept. 1955 to Oct. 1961	Jeremiah Milbank	44 Wall Street New York, NY 10005	Investment Management
Sept. 1951 to Sept. 1953	Brundage, Story and Rose	90 Broad Street New York, NY 10005	Investment Management

Attachment 1

Memberships:

Links Club	Social
Brook	Social
Racquet & Tennis	Social
River Club	Social
Southampton Bathing Assoc.	Social
Meadow Club	Social
Doubles	Social
St. Elmo Society	Fraternity
Century Club	Honors Society
Southampton Association	Civic
The Appalachian Company	Director
Wenonah Development Company	Director
Inspiration Resources Company	Director
World Bank	Pension Advisory Director

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

Municipal Assistance Corp. 1975-1979 Director & Chairman

NYS Housing Finance Agency 1976-1979 Director & Chairman

NYS Medical Care Facilities Finance Agency 1976-1979 Director & Chairman

NYS Project Finance Agcy. 1976-1979 Director & Chairman

NYS Municipal Bond Bank Agcy. 1976-1979 Director & Chairman

NYS Mortgage Agency 1976-1979 Director & Chairman

NYS Dormitory Authority 1982-1985 Director & Chairman

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

NONE

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Member, Republican Party

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

No significant contributions that I recall. My late wife, Julie E. Gould, made a number of contributions, but I have no means of determining them specifically at this time.

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet) I have spent my entire career in various forms of finance. This has included the Chairmanship of the State Agencies listed above and the Chairmanship of Donaldson, Lufkin & Jenrette Securities Corporation, a major investment banking firm. Thus I feel I have a broad background and qualification for the position.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

If confirmed by the Senate, I will sever all of my business relationships.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I have no plans after completing government service to resume employment with anyone.

3. Has anybody made you a commitment to a job after you leave government?

I have made no commitments, nor have I received any commitments, for my services after I leave government service.

4. Do you expect to serve the full term for which you have been appointed?

Yes

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

NONE

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

NONE

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

I am not aware of any relationships, dealings or financial transactions during the last ten years which could create a conflict of interest with my proposed position.

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

During the four year period 1975-1979, I became a Director, Finance Chairman and ultimately the Chairman of the Municipal Assistance Corporation for the City of New York. In that regard, there were periods when I dealt with Congress, President Ford and President Carter with respect to federal loan guarantees for the City of New York.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

Both my wife and I have established qualified blind trusts, which were approved by the Office of Government Ethics and went into effect on September 11, 1985, in order to resolve any potential conflicts of interest.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

I have never been convicted of any criminal violations.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

I have never been subject to any proceeding, inquiry or investigation by any professional association.